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Early Childhood Trust Fund Outlook

Ismael Torres, Chief Economist
New Mexico Legislative Finance Committee
Economic and Rural Development and Policy Committee

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A trust fund's health depends on returns, deposits, and withdrawals.

Investment returns

Earnings on the balance. The forecast assumes 6.5 percent compound; the State Investment Council's long-term assumption is 6.57 percent. Boosting or hampering return has a significant impact.

Deposits

Excess federal mineral leasing and oil and gas school tax revenue. Deposits built the fund but fall to near zero after 2031. Increasing or decreasing deposits has significant impact.

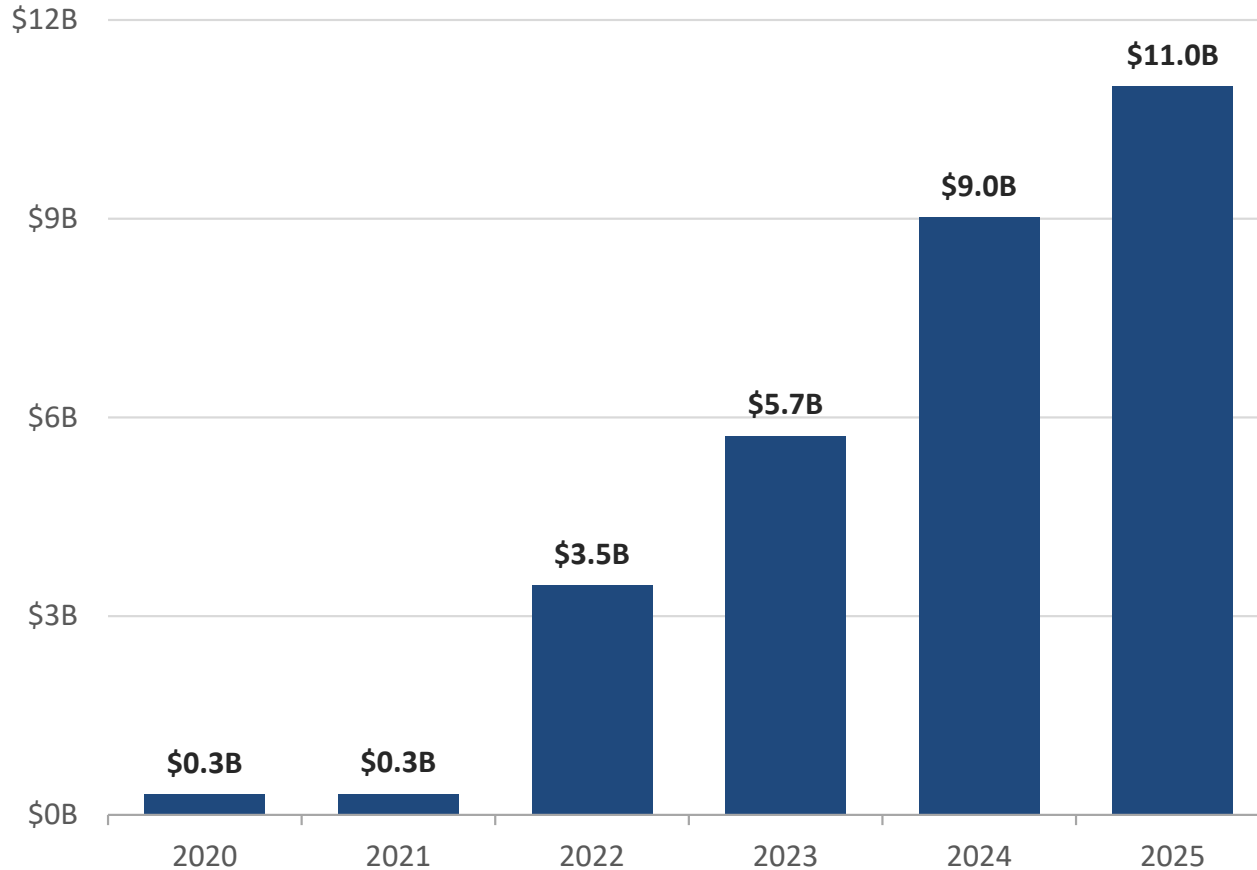
Withdrawals

The statutory distribution, the greater of \$500 million or 5 percent of the three-year average balance, plus any one-time withdrawals. Withdrawals should be below investment returns to preserve fund health.

The fund grows only when returns plus deposits exceed withdrawals. With deposits ending after 2031, withdrawals must stay below the roughly 6.5 percent the fund earns.



Deposits built the fund from \$300 million to \$11 billion in five years.



\$9.5 billion

deposited, 2022 to 2025

\$2.1 billion

investment earnings, 2021 to 2025

\$0.95 billion

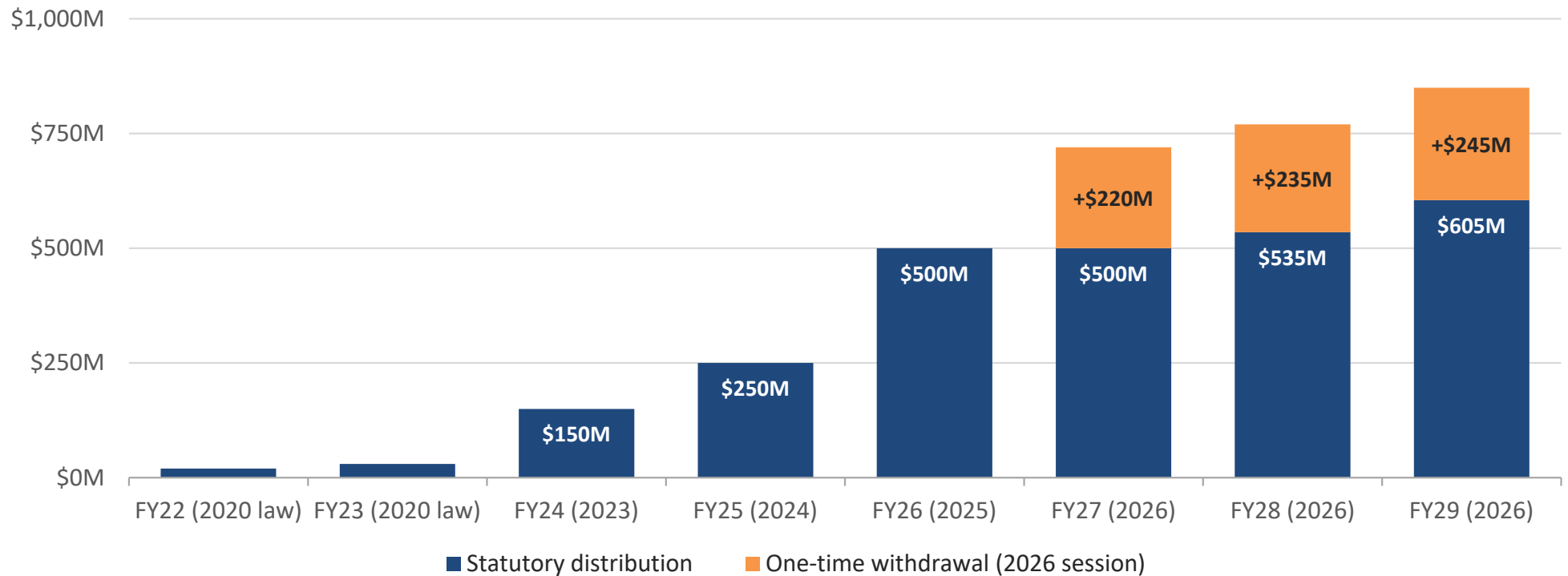
distributed to early childhood, FY22 to FY26

Created in 2020 with a \$300 million general fund appropriation.

Source: LFC Early Childhood Trust Fund forecast, August 2026 (calendar year-end actuals)



Withdrawals have been raised in each of the last four sessions.

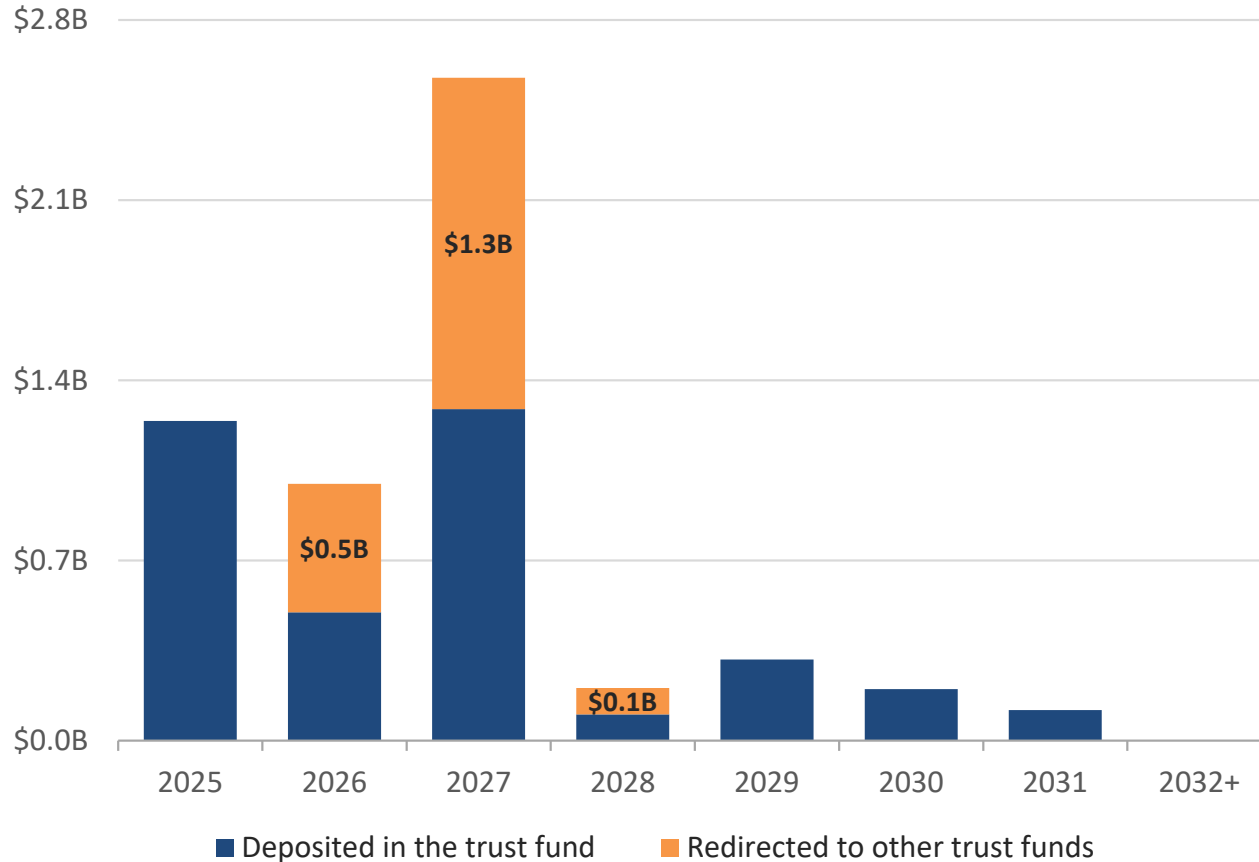


Distributions grew 25-fold from FY22 (\$20M) to FY26 (\$500M). Floor raised: 2023 (\$150M), 2024 (\$250M), 2025 (\$500M); 2026 added up to \$700M one-time.

Source: LFC forecast, August 2026; Laws 2020; HB191 (2023); 2024 session; HB71 (2025); SB241 (2026)



In 2025, half of the fund's last large deposits were redirected.



\$1.9 billion

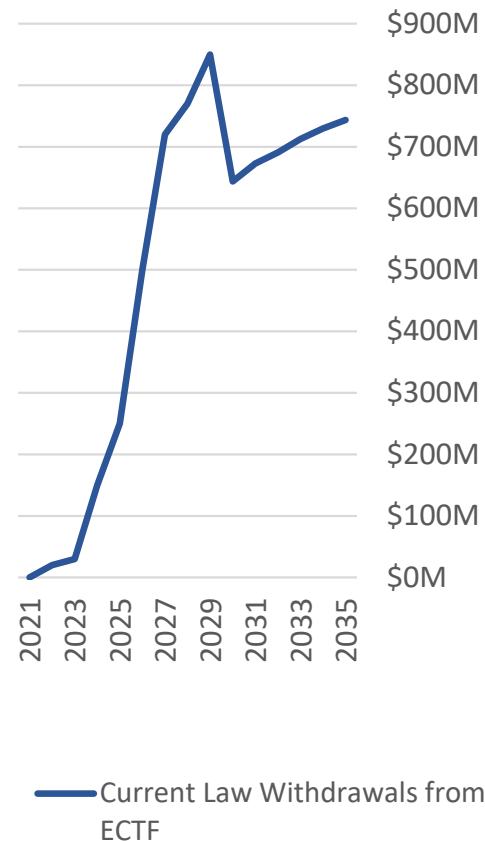
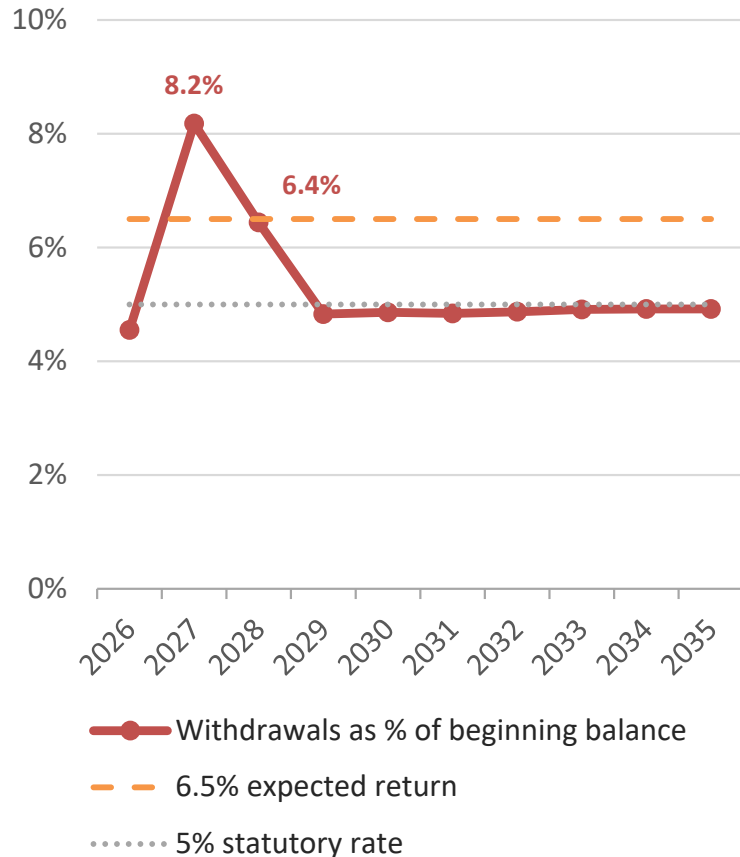
of forecast deposits redirected for FY26 to FY28 (HB71, 2025)

- 50% of excess federal mineral leasing to the Medicaid Trust Fund
- 50% of excess school tax to the Behavioral Health Trust Fund
- Full deposits resume in FY29, when forecast amounts are small; near zero after 2031

Source: LFC forecast, August 2026; HB71 (2025).



In 2026, a \$700 million withdrawal pushed payouts above returns.



\$700 million

from the corpus for universal child care (SB241). LFC assumes \$220M in FY27, \$235M in FY28, \$245M in FY29.

8.2 percent

of the balance paid out in 2027, above the 6.5 percent expected return

\$3.1 billion

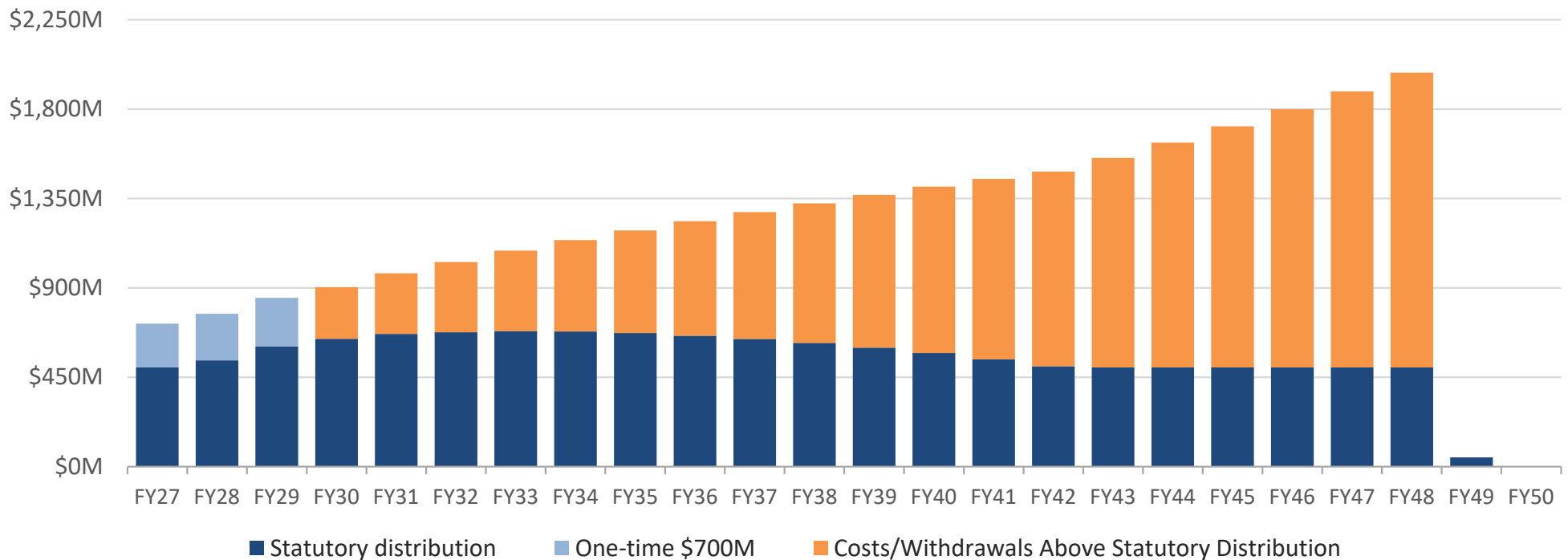
smaller corpus by 2035 from the 2025 and 2026 changes together

Source: LFC forecast, August 2026 (Current Law and No Withdrawal scenarios); SB241 (2026)



Program costs continue after the \$700 million is spent.

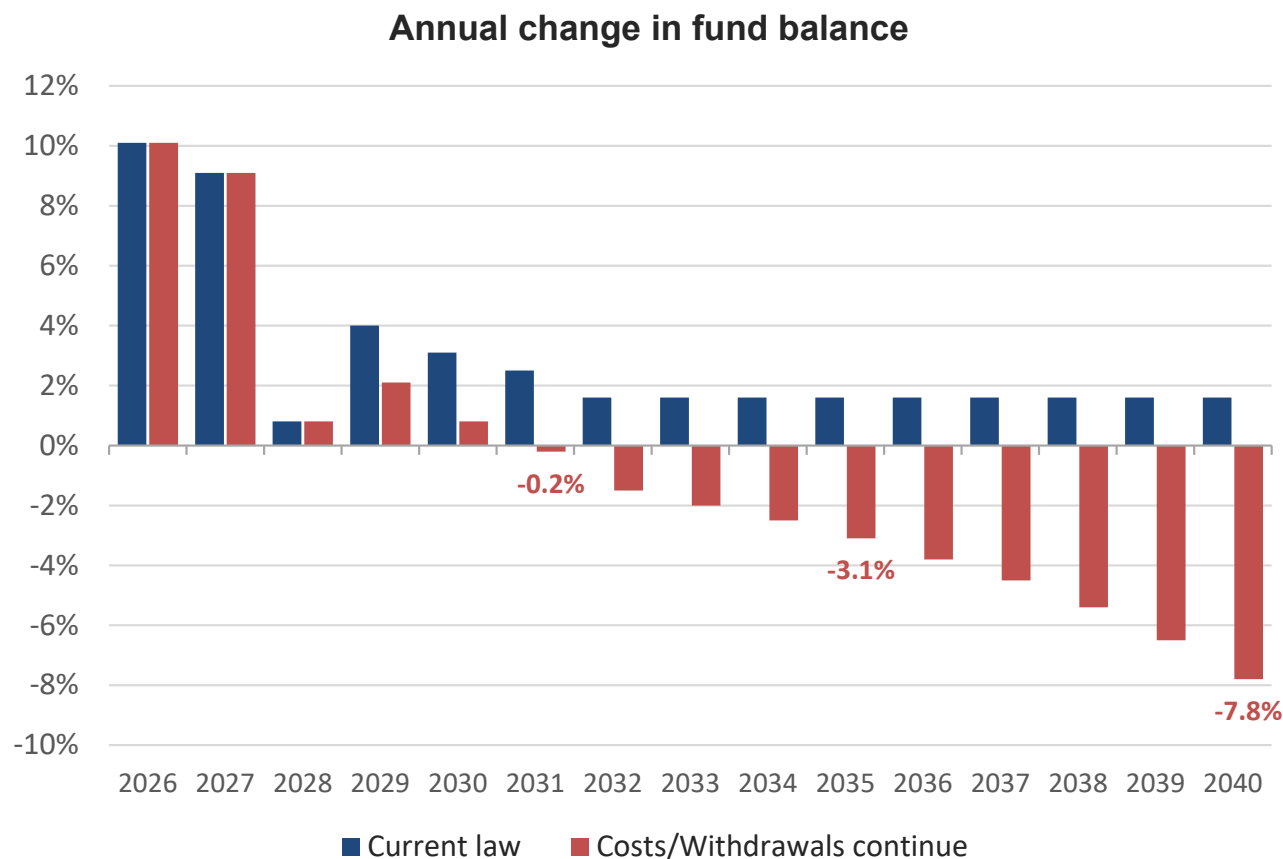
Universal child care's general fund cost was estimated at \$160M in FY26 rising to \$427M in FY28, **a \$340M to \$400M annual gap by FY29**. Covered from the corpus, with cost factor growth the gap reaches about \$840M by FY40.



Source: LFC forecast, August 2026; LFC fiscal impact report, SB241 (2026)



The fund begins spending more than it earns in FY30, not 2048.



2030

withdrawals (\$904M) first exceed investment earnings (\$866M), and do every year after

2031

the balance starts shrinking, once the last forecast deposits arrive, and shrinks at an exponential rate

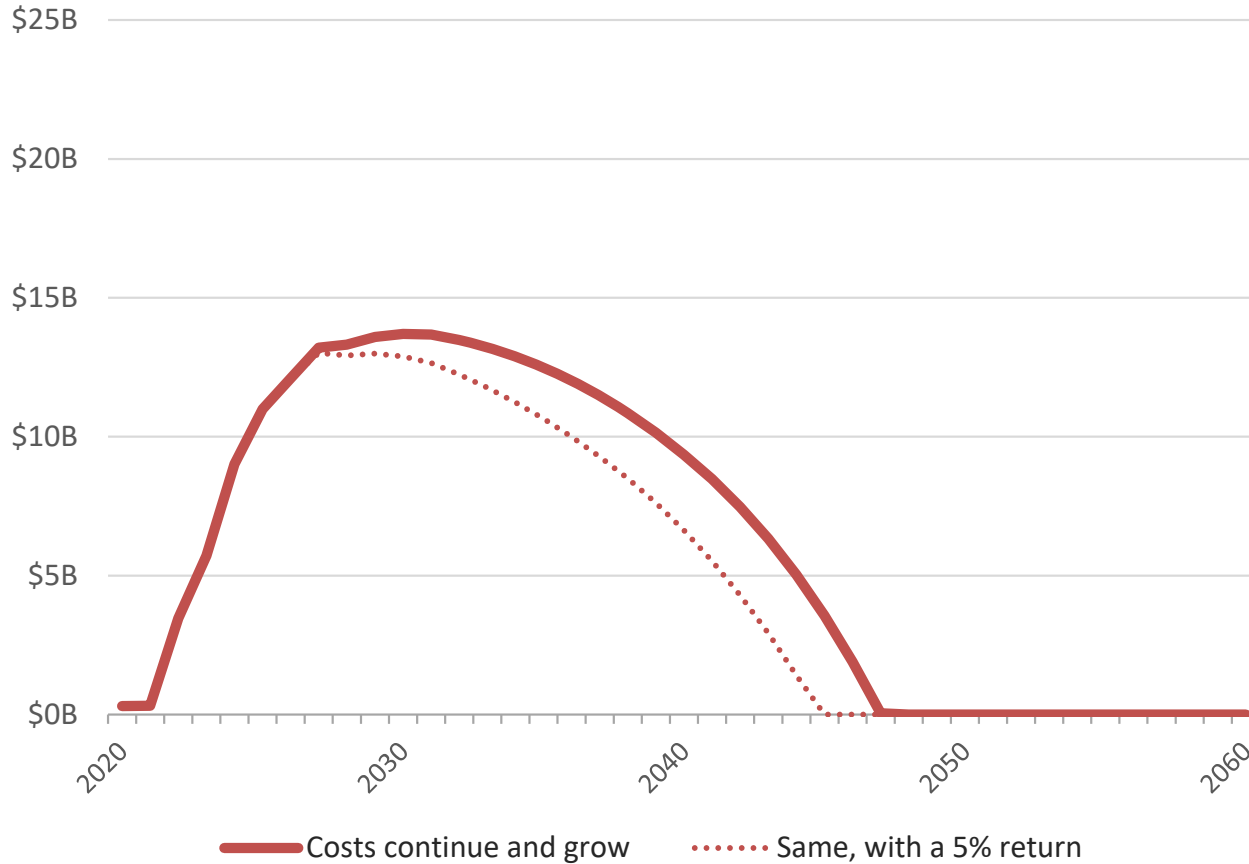
\$790M

a year more paid out than earned by 2040, and growing

Source: LFC analysis of the August 2026 forecast



If withdrawals continue to meet costs, the fund peaks in 2030 and is empty by 2048.



\$13.7 billion

peak balance, in 2030, as deposits wind down

2048

the corpus is exhausted; 2045 at a 5 percent return. No corpus means no more distributions supporting the programs.

Source: CREG Forecast August 2026; LFC analysis



Additional deposits alone delay insolvency; slower withdrawals prevent it.

Option	Lever	Corpus runs out	Balance, 2059
No action: program costs continue and grow	None	2048	\$0
Lower returns: 5 percent instead of 6.5 percent	None	2045	\$0
Restore the \$1.9 billion redirected in 2025	Deposits	2049	\$0
New \$5 billion deposit in 2029	Deposits	2050	\$0
Cost containment or other revenues cover cost growth	Other Revs	Solvent	\$22.7B
General fund pays the ongoing program cost	GF backfill	Solvent	\$22.7B

Restoring deposits moves insolvency only slightly, **because withdrawals keep growing**. Replacing withdrawals with general fund (also known as backfilling) is key to fund solvency.



Source: LFC analysis using the August 2026 forecast model. Each row changes one assumption from the costs-continue case.

The Legislature can change course before the \$700 million is exhausted in FY29.

Backfill with the general fund

Pay ongoing early childhood costs above the statutory distribution from recurring general fund revenue.

Make additional deposits

Restore redirected deposits or add new ones. On their own, deposits delay insolvency by a few years.

Slow withdrawals

Keep corpus-funded spending at the statutory distribution, or at a fixed amount that does not grow. Replace additional cost pressures with fiscal controls like copays, waitlists, or other revenue generating/cost containment mechanisms.

Without a change, costs keep growing while deposits end. The corpus peaks around 2030. The next two or three sessions, before the one-time money runs out, are an opportunity to set a sustainable path.



Questions?

THANK YOU!

